Safeway Stores Limited

Annual Report and Financial Statements

for the 52 weeks ended 29 January 2017

Registered number: 00746956

Safeway Stores Limited

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Safeway Stores Limited

Strategic report
for the 52 weeks ended 29 January 2017

The Directors present their Strategic report and the Company's audited financial statements for the 52 weeks ended 29 January 2017. These financial statements are prepared under United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101).

The term 'Company' refers to Safeway Stores Limited and the terms 'Group' and 'Morrisons' refers to Wm Morrison Supermarkets PLC and its subsidiary undertakings.

Business review and principal activities

The principal activity of the Company is the operation of retail supermarket stores under the Morrisons brand and associated activities within the United Kingdom.

The Company's revenue increased by 1.2% to £7,981m (2016: £7,884m). Store turnover of £6,262m, excluding fuel, was down 0.4% (2016: £6,285m). Fuel sales increased by 7.5% to £1,719m due to increased volumes (2016: £1,599m).

The results for the Company show a profit for the financial period of £283m (2016: £215m). This is after £4m of property profits (2016: £4m loss) recognised in the period and a £19m credit relating to impairment and provision for onerous contracts (2016: £nil).

The Directors authorised an interim dividend of £1.087 (2016: £2.174) per share which absorbed £250m (2016: £500m) of shareholders' funds.

As at 29 January 2017 the Company had net assets of £650m (2016: £582m).

Strategy

Our strategy to Fix, Rebuild and Grow is powered by listening and by delivering our six priorities. We are still in the Fix phase and have more plans, but we are making good progress for all stakeholders – customers, colleagues, suppliers and shareholders.

The shopping trip is improving and more customers are buying more from the Morrisons Group. Our turnaround is colleague-led, and our ambition is for our motivated and valued colleagues to increasingly share in our success. We are striving to reward our unique team of food makers and shopkeepers with a pay and bonus structure to reflect their contribution towards great customer service.

For suppliers, we are building long-term partnerships, improving our ways of working together to reduce complexity and lowering the cost of doing business. For shareholders, we are building a broader, stronger business to maximise and sustain growth in profits and dividends.

The three turnaround phases – Fix, Rebuild, Grow – are distinct and also concurrent. Our improved performance during the year showed this, as we again made progress both with core supermarkets and with plans to build a broader, stronger business.

Investment in the shopping trip drove positive like for like sales and improved productivity, which we are now recycling into further improvements for customers. Our new automated ordering system was launched in the second half of the year and is already saving time and money, and improving the customer shopping trip.

The strong cash flow and balance sheet remain the foundations on which we will continue to turnaround and grow the Group. We expect improved sales, margin and asset intensity will continue to be the levers driving profit and ROCE growth. That growth will be capital light and sustainable, and will be across both our core supermarkets and a broader base as the Morrisons brand starts to become more popular and accessible. As we keep improving profitability and further de-leverage, we will continue to be guided by our capital allocation framework.

Six priorities

1. To be more competitive

Morrisons is becoming more competitive for customers.

Our prices are lower. 'Price Crunch' has been running for more than a year, during which we have 'Crunched' thousands of prices and held hundreds below their original level. This is a break from the traditional promotion cycle, and helps us drive volume growth and develop a Morrisons price list across a wide basket of products that we know matter most to our customers.

As we deliver a notch down in price, we also notch up in quality. We are investing in improving Fresh, for example in Fruit & Vegetables, and our unique 'Morrisons Makes It' freshly prepared products. Innovation in new and improved items and an ongoing flow of resets, category by category, ensures our range, product quality and packaging are constantly improving, thereby broadening our appeal. We have made good progress in improving our own label ranges, and still have more than half to do.

Our 'Best' premium own-label launch was a major new initiative during the Autumn and in the run up to Christmas. Sales have been strong, and feedback on the quality and breadth of range has been excellent.

As we become more competitive, we are winning more recognition. During the year we won Meat and Fish Retailer of the Year, In-store Bakery Retailer of the Year, National Café Chain of the Year, Cheddar Cheese Retailer of the Year, Multiple Drinks Retailer of the Year, and International Wine Challenge Supermarket of the Year for the second year running.

2. To serve customers better

Colleagues are leading the turnaround by serving customers better.

We have introduced a new automated ordering system into all stores in Grocery and many Fresh categories. We plan to roll it out across all categories during 2017. The system is capital light, utilising cloud technology and store-specific historic sales data to forecast stock requirements. It is reducing cost and stock volumes, while also saving time for colleagues, and providing a better offer for customers. Availability is improving.

We are improving our front-end labour scheduling, ensuring more colleagues are available for customers at the busiest times. We also continue to invest in serving customers better, with the introduction of new customer service desks and belted self-scan checkouts, and more customer greeters.

Customers continue to notice the improvements and respond. Queues are shorter and our satisfaction survey scores remain high. We are serving more customers, with transactions up year-on-year.

3. Find local solutions

Our new local solutions team is making good progress. For many individual stores, we are sourcing locally grown fruit and vegetables, which is very popular with customers. We are introducing ranges such as Lincolnshire Pork and Beef, and improving range, quality and price around major regional events such as Hogmanay. Local sales were up 20% year-on-year across the Group, and we expect further progress in the future. For example, in February 2017 we launched an initiative to identify and source products from two hundred of the nation's best local growers, farmers, fishermen, and other food makers.

Our customer listening programme before and after a Fresh Look refit, together with the increasingly insightful data provided by our More card, is helping us to limit the impact of competitor new store openings.

Six priorities (continued)

4. Develop popular and useful services

Our existing services continue to become more popular and our new services are beginning to take shape. Customers are responding well to the improved menus, service, and standards in our cafés. We modernised a large number of cafés last year, introducing a contemporary new look and feel. Overall, café sales were up year-on-year. Our fuel business continues to be more competitive and sales were strong, up 7.5%.

Timpson is now in a large number of the Group's stores. Where Timpson now operates a full dry cleaning, key cutting and repairs offer, Timpson's sales are up by an average of 40%.

Morrisons has high footfall supermarkets which are proving very popular for pick-up services, with Amazon lockers now in most stores and, after a successful trial, a roll-out is planned with Doddle.

Opportunities to locate complementary retail services for customers have been identified at more than 30 initial stores. The first of these is planned shortly, and we expect longer-term potential across the estate. In addition, we will soon be trialling hand carwash and tyre-change concessions, both of which also will provide new services for customers and income for Morrisons.

5. To simplify and speed up the organisation

During the year, we continued to simplify in-store reporting structures by reducing the number of managerial roles. We also improved capability further by recruiting or promoting a large number of store and area managers.

We are building stronger, lasting, mutually beneficial relationships with our suppliers. We have listened, and are working together to buy and sell simply, and develop more efficient ways of working. We are introducing a standard supply agreement, removing charges – such as those for customer complaints and some legal checks – are removing range duplication while improving choice, and developing 'Price Crunch' as a simple and effective mechanic for both customers and suppliers.

The new automated ordering system is making the process simpler and quicker. We are also working on opportunities to improve and simplify distribution between the Morrisons Group's Manufacturing sites and Retail stores, and on halving or digitising existing in-store administration.

6. To make core supermarkets strong again

We completed a large number of Fresh Look refits last year. The local Fresh Look listening and improvements continue to provide us with insights which we are introducing across the estate. Examples last year included: installing wine-chiller fridges; introducing customer greeters; and making our specialists' food maker craft skills more visible in areas such as butchery and bakery.

We are also improving other aspects of the shopping trip. For example, last year almost all in-store colleagues received a brand new uniform, and those on Market Street now have freshly laundered whites every day.

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks and uncertainties of the Group and are not managed separately. Accordingly, the principal risks and uncertainties of the Group, which include those of the Company, are disclosed on pages 18 and 19 of the Wm Morrison Supermarkets PLC Annual Report and Financial Statements 2016/17, which does not form part of this report.

Key performance indicators (KPIs)

The KPIs of the Company are integrated with those of the Group and are not managed separately. The KPIs of the Group, which include those of the Company, are disclosed on pages 4, 5, 10, 14, 16 and 33 of the Wm Morrison Supermarkets PLC Annual Report and Financial Statements 2016/17, which does not form part of this report.

Approval of the Strategic report

Pages 1 to 4 form the Strategic report. The Strategic report was approved by the Board and signed on its behalf by:

J Burke
Director and Company Secretary
25 October 2017

Safeway Stores Limited

Directors' report
for the 52 weeks ended 29 January 2017

The Directors present their Annual Report and the Company's audited financial statements for the 52 weeks ended 29 January 2017. These financial statements are prepared under United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101).

Matters discussed in the Strategic report

The Directors have chosen to present certain requirements of the Directors' report within the Strategic report on pages 1 to 4 of the financial statements, including the Company's principal activity, business review and details of proposed dividends.

Directors and their interests

The Directors who held office during the period and up to the date of signing these financial statements were as follows:

T Strain	
A Charnock	
G Mills	
J Burke	(appointed 22 February 2017)
M Amsden	(resigned 22 February 2017)

The Company is ultimately wholly owned by Wm Morrison Supermarkets PLC and none of the Directors who held office at the period end held any interest in the shares of the Company or any of its subsidiaries. The interest in the shares of the ultimate parent undertaking held by Directors of that company is disclosed in the Wm Morrison Supermarkets PLC Annual Report and Financial Statements 2016/17, which does not form part of this report.

At no time during the period or subsequently did any Director have a material interest in any contract or arrangement with the Company or any of its subsidiaries which was significant in relation to the Group's business.

Directors' and Officers' liability insurance

The Group maintains insurance cover for the protection of Directors and senior management from personal liabilities and costs which may arise in the course of fulfilling their duties. This insurance was in force during the 52 weeks ended 29 January 2017 and to the date of approval of the Company financial statements.

Internal control

The Board is responsible for the system of internal control within the Company and for reviewing its effectiveness. The control system is intended to manage rather than eliminate the risk of not meeting the Company's strategic objectives. Any such system can only provide reasonable, not absolute, assurance against material misstatement or loss.

Corporate and social responsibility

The Group recognises the importance of its corporate and social responsibilities, monitors its impact on the environment and designs and implements policies to reduce any damage that might be caused by the Group's activities. The Company operates in accordance with Group policies, which are described in the Group's Annual Report and Financial Statements which do not form part of this report. Initiatives designed to minimise the Company's impact on the environment include recycling and reducing energy consumption.

Employment policy

The Group's comprehensive employment policies cover recruitment, selection, retention, remuneration, education, development and equality.

Employee involvement
Employees are kept as fully informed as possible about the activities of the business. This is achieved through internal publications, communications programmes, notice boards, briefings and local, regional and national consultative committees.

The Group recognises a number of trade unions and has a partnership agreement with USDAW. The Group is committed to involving employees in the business through a policy of regular communication and consultation.

The Group encourages employee involvement in the financial performance of the business through participation in either the Morrisons Group profit share scheme, management bonus plan or the savings related share option schemes.

Equal opportunity
The Group is an equal opportunities employer. Equal opportunities are offered to all regardless of race, colour, nationality, ethnic origin, sex (including gender reassignment), marital or civil partnership status, disability, religion or belief, sexual orientation, age or trade union membership.

The Group gives full and fair consideration to applications for employment made by people with disabilities. The policy is to offer equal opportunity to all disabled candidates and employees who have a disability or become disabled in any way during the course of their employment. A full assessment of the individual's needs is undertaken and reasonable adjustments are made to the work environment or practices in order to assist those with disabilities.

All candidates and employees are treated equally in respect of recruitment, promotion, training, pay and other employment policies and conditions. All decisions are based on relevant merits and abilities.

Future outlook

As a subsidiary of Wm Morrison Supermarkets PLC the Company will benefit from the Group's commitment to developing its customer proposition, facilitating the Company's successful performance in future.

Financial risk management

The financial risk management and policies of the Company are consistent with those of the Group. For further details, see page 92 of the Wm Morrison Supermarkets PLC Annual Report and Financial Statements 2016/17, which does not form part of this report.

Political donations

There were no political donations (2016: £nil) for the period and the Company did not incur any political expenditure (2016: £nil).

Directors' report
for the 52 weeks ended 29 January 2017 (continued)

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This report was approved by the Board and signed on its behalf by:

J Burke
Director and Company Secretary
25 October 2017

Safeway Stores Limited

Statement of Directors' responsibilities
for the 52 weeks ended 29 January 2017

The Directors are responsible for preparing the Annual report and the Financial Statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial 52 week period. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law). Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

This report was approved by the Board and signed on its behalf by:

J Burke
Director and Company Secretary
25 October 2017

Safeway Stores Limited

Independent auditors' report to the members of Safeway Stores Limited

Report on the financial statements

Our opinion
In our opinion, Safeway Stores Limited's financial statements (the 'financial statements'):

- give a true and fair view of the state of the Company's affairs as at 29 January 2017 and of its profit for the 52 week period (the 'period') then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited
The financial statements, included within the Annual Report, comprise:

- the balance sheet as at 29 January 2017;
- the statement of comprehensive income for the period then ended;
- the statement of changes in equity for the period then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception
Adequacy of accounting records and information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Other matters on which we are required to report by exception (continued)

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 8, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)'). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether this report includes the disclosures required by applicable legal requirements.

A Paynter

Andrew Paynter (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds, 25 October 2017

Safeway Stores Limited

Statement of comprehensive income
for the 52 weeks ended 29 January 2017

	Note	**52 weeks to 29 January 2017 £m**	52 weeks to 31 January 2016 £m
Revenue	2	**7,981**	7,884
Cost of sales		**(7,598)**	(7,490)
Gross profit		**383**	394
Administrative expenses:		**(103)**	(164)
Recurring administrative expenses		**(121)**	(151)
Non-recurring exceptional costs	4	**(1)**	-
Net impairment reversal	4	**19**	-
Pension scheme set-up costs	16	**-**	(13)
Other operating income		**30**	12
Profit/(loss) on disposal and exit of properties	4	**4**	(4)
Operating profit	4	**314**	238
Interest receivable and similar income	5	**8**	1
Interest payable and similar expenses	6	**(2)**	(2)
Profit on ordinary activities before taxation		**320**	237
Tax on profit	7	**(37)**	(22)
Profit for the financial period		**283**	215
Other comprehensive income/(expense)			
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit pension schemes	16	**44**	166
Tax in relation to components of other comprehensive income	17	**(9)**	(33)
Other comprehensive income for the period, net of tax		**35**	133
Total comprehensive income for the financial period		**318**	348

The notes on pages 14 to 33 form part of these financial statements.

Safeway Stores Limited
Registered number: 00746956

Balance sheet
as at 29 January 2017

	Note	**2017 £m**	2016 £m
Fixed assets			
Property, plant and equipment	9	**2,586**	2,546
Investment property	10	**12**	12
Investments	11	**350**	350
		2,948	2,908
Current assets			
Stock	12	**186**	182
Debtors	13	**647**	387
Pension asset due after more than one year	16	**258**	205
Cash and cash equivalents		**26**	26
		1,117	800
Creditors: amounts falling due within one year	14	**(3,108)**	(2,848)
Net current liabilities		**(1,991)**	(2,048)
Total assets less current liabilities		**957**	860
Creditors: amounts falling due after more than one year	15	**(123)**	(97)
Deferred tax liabilities	17	**(137)**	(136)
Provisions for liabilities	18	**(47)**	(45)
		(307)	(278)
Net assets		**650**	582
Shareholders' equity			
Called-up share capital	19	**230**	230
Retained earnings		**420**	352
Total shareholders' funds		**650**	582

The notes on pages 14 to 33 form part of these financial statements.

The financial statements on pages 11 to 33 were approved by the Board of Directors on 25 October 2017 and were signed on its behalf by:

T Strain
Director

Safeway Stores Limited

Statement of changes in equity
For the 52 weeks ended 29 January 2017

Current period	Note	**Called-up share capital £m**	**Retained earnings £m**	**Total shareholders' funds £m**
At 1 February 2016	19	230	352	582
Profit for the financial period		-	283	283
Other comprehensive income/(expense):				
Remeasurement of defined benefit pension scheme	16	-	44	44
Tax in relation to components of other comprehensive income	17	-	(9)	(9)
Total comprehensive income for the period		-	318	318
Dividends	8	-	(250)	(250)
At 29 January 2017		**230**	**420**	**650**

Prior period	Note	Called-up share capital £m	Retained earnings £m	Total shareholders' funds £m
At 2 February 2015	19	230	504	734
Profit for the financial period		-	215	215
Other comprehensive income/(expense):				
Remeasurement of defined benefit pension scheme	16	-	166	166
Tax in relation to components of other comprehensive income	17	-	(33)	(33)
Total comprehensive income for the period		-	348	348
Dividends	8	-	(500)	(500)
At 31 January 2016		230	352	582

The notes on pages 14 to 33 form part of these financial statements.

1. Accounting policies

General information

Safeway Stores Limited is a private company, limited by shares and incorporated in the United Kingdom under the Companies Act 2006 (Registration number 00746956). The Company is domiciled in the United Kingdom and its registered address is Hilmore House, Gain Lane, Bradford, West Yorkshire, BD3 7DL, United Kingdom.

Basis of preparation of financial statements

These financial statements of the Company have been prepared in accordance with the Companies Act 2006 (the Act) as applicable to companies using Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

The Company is a qualifying entity for the purposes of FRS 101 as it is a member of a group which prepares publicly available consolidated financial statements and it is included in the consolidation for that group.

These financial statements, which have been prepared on the going concern basis, under the historic cost convention and in accordance with applicable accounting standards in the United Kingdom, are presented as required by the Companies Act.

The disclosure exemptions adopted by the Company in preparation of these financial statements in accordance with FRS 101 are as follows:

a) IFRS 2, 'Share-based payment' (paragraphs 45(b) and 46 to 52) – details of the number and weighted-average exercise prices of share options, and how the fair value of goods or services received was determined;

b) IFRS 7, 'Financial Instruments: Disclosures';

c) IFRS 13, 'Fair value measurement' (paragraphs 91 to 99) – disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities;

d) IAS 1, 'Presentation of financial statements' (paragraph 38) – comparative information requirements in respect of:

(i) paragraph 79(a)(iv) of IAS 1;

(ii) paragraph 73(e) of IAS 16, 'Property, plant and equipment'; and

(iii) paragraph 76 and 79(d) of IAS 40 'Investment property'.

e) The following paragraphs of IAS 1, 'Presentation of financial statements':

(i) 10(d), (statement of cash flows);

(ii) 111 (cash flow statement information); and

(iii) 134-136 (capital management disclosures);

f) IAS 7, 'Statement of cash flows';

g) IAS 8 'Accounting policies, changes in accounting estimates and errors' (paragraph 30 and 31) – requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective;

1. Accounting policies (continued)

Basis of preparation of financial statements (continued)

h) The following requirements of IAS 24, 'Related party disclosures':

(i) paragraph 17 – key management compensation; and

(ii) the requirements to disclose related party transactions entered into with two or more wholly owned members of a group.

The Directors have chosen not to prepare consolidated financial statements for the Company in accordance with the provisions of section 400 of the Act. The results of the Company are included in the consolidated financial statements of Wm Morrison Supermarkets PLC.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are the same for the Company as they are for the Group. For further details, see page 64 of the Wm Morrison Supermarkets PLC Annual Report and Financial Statements 2016/17, which does not form part of this report.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Accounting reference date

The accounting period of the Company ends on the Sunday falling between 29 January and 4 February each year.

Revenue recognition

a) Sale of goods in-store and fuel

Revenue from the sale of goods in-store comprises cash from customers and excludes VAT. It is net of returns, colleague discounts, coupons, vouchers, 'More' points earned in-store, and the free element of multi-save transactions. Sale of fuel is recognised net of VAT and 'More' points earned on fuel. Revenue is recognised when transactions are completed in-store.

b) Other revenue

Other revenue includes income from concessions and commissions based on the terms of the contract. Revenue collected on behalf of others is not recognised as revenue, other than the related commission. Sales are recorded net of VAT and intra-group transactions.

c) 'More' points

The fair value of 'More' points is determined to be the value to the customer of the points issued, adjusted for factors such as the expected redemption rate. The Group continues to assess the appropriateness of the expected redemption rates against actual redemptions. The fair value is treated as a deduction from revenue at the time the points are issued, and is deferred until the rewards are redeemed by the customer in a future sale.

Cost of sales

Cost of sales consists of all costs of the goods being sold to the point of sale, net of promotional funding and commercial income, and includes warehouse and transportation costs. Store depreciation, store overheads and store-based employee costs are also allocated to cost of sales.

1. Accounting policies (continued)

Promotional funding

Promotional funding refers to investment in the customer offer by suppliers by way of promotion. The calculation of funding is mechanical and system generated based on a funding level agreed in advance with the supplier. Funding is recognised as units are sold and invoiced in accordance with the specific supplier agreement. Funding is recorded effectively as a direct adjustment to the cost price of the product in the period. Funding is invoiced and collected through the year, shortly after the promotions have ended.

Commercial income

Commercial income is recognised as a deduction from cost of sales, based on the expected entitlement that has been earned up to the balance sheet date for each relevant supplier contract. The Company only recognises commercial income where there is documented evidence of an agreement with an individual supplier and when associated performance conditions are met.

Other operating income

Other operating income primarily consists of income not directly related to the operating of supermarkets and mainly comprises rental income from investment properties and income generated from recycling of packaging. Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease term. Details of rental income from investment property are provided in note 10.

Profit/loss on disposal and exit of properties

Profit/loss from the disposal and exit of properties includes gains and losses on disposal of property assets and other costs incurred by the Company following a decision to dispose, close or no longer purchase properties. Where the Company disposes of a property, this disposal transaction is accounted for upon unconditional exchange of contracts. Gains and losses are determined by comparing sale proceeds with the asset's carrying amount and are presented net of costs associated with disposal.

Borrowing costs

All borrowing costs are recognised in the Company's profit for the period on an effective interest rate basis except for interest costs that are directly attributable to the construction of buildings and other qualifying assets, which are capitalised and included within the initial cost of the asset. Capitalisation commences when both expenditure on the asset and borrowing costs are being incurred, and necessary activities to prepare the asset for use are in progress. In the case of new stores, this is generally once planning permission has been obtained. Capitalisation of interest ceases when the asset is ready for use. Interest is capitalised at the effective rate incurred on borrowings before taxation of 5% (2016: 5%).

Current taxation

The current income tax charge is calculated on the basis of the tax laws in effect during the period and any adjustments to tax payable in respect of previous periods. Taxable profit differs from the profit as reported in the profit for the period as it is adjusted both for items that will never be taxable or deductible, and temporary differences. Current tax is charged to profit for the period, except when it relates to items charged or credited directly in other comprehensive income or equity in which case the current tax is reflected in other comprehensive income or equity as appropriate.

1. Accounting policies (continued)

Deferred taxation

Deferred tax is recognised using the balance sheet method. Provision is made for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. No deferred tax is recognised for temporary differences that arise on the initial recognition of goodwill or the initial recognition of assets and liabilities that are not a business combination and that affects neither accounting nor taxable profits.

Deferred tax is calculated based on tax law that is enacted or substantively enacted at the reporting date and provided at rates expected to apply when the temporary differences reverse. Deferred tax is charged or credited to profit for the period except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred tax is reflected in other comprehensive income or equity as appropriate.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the asset can be utilised. Deferred tax assets recognised are reviewed at each reporting date as judgement is required to estimate the availability of future taxable income. Deferred tax assets and liabilities are offset where amounts will be settled on a net basis as there is a legally enforceable right to offset.

Accruals for tax contingencies require management to make judgements and estimates of the probable outcome of tax compliance issues. All accruals are included in current liabilities.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Costs include directly attributable costs. Annual reviews are made of estimated useful lives and material residual values.

Depreciation rates used to write off cost less residual value on a straight line basis are:

Freehold land	0%
Freehold buildings	2.5%
Leasehold land	Over the lease period
Leasehold buildings	Over the shorter of lease period and 2.5%
Plant, equipment, fixtures and vehicles	10% to 33%

Depreciation expense is primarily charged in cost of sales with an immaterial amount in administration expenses.

Investment property

Property held to earn rental income is classified as investment property. Investment property is recorded at cost less accumulated depreciation and any recognised impairment loss.

Depreciation rates used to write off cost less residual value on a straight line basis are:

Freehold land	0%
Freehold buildings	2.5%

Depreciation expense is primarily charged in cost of sales with an immaterial amount in administration expenses.

1. Accounting policies (continued)

Investments

Investments comprise investments in equity instruments held for long term investment. They are measures at fair value through other comprehensive income, where the fair value can be measured reliably. Where the fair value of the instruments cannot be measured reliably, for example, when there is variability in the range of estimates, the investments are recognised at cost less accumulated impairment losses.

Impairment of non-financial assets

The Company tests non-financial assets if events or changes in circumstances indicate that the carrying amount may not be recoverable. Testing is performed at the level of a cash generating unit (CGU) in order to compare the CGU's recoverable amount against its carrying value. An impaired CGU is written down to its recoverable amount, which is the higher of value in use or its fair value less costs to dispose. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The Company considers that each of its stores is a CGU, which together form a grocery group of CGUs supported by corporate assets such as head office and vertically integrated suppliers.

Impairment losses are reversed if there is evidence of an increase in the recoverable amount of a previously impaired asset, but only to the extent that the recoverable amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

Stock

Stocks represents goods for resale and is measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale. Cost is calculated on a weighted average basis and comprises purchase price, import duties, and other non-recoverable taxes reduced by commercial income and a provision for estimated losses relating to shrinkage and markdowns. Losses relating to shrinkage in stores are based on historical losses verified by physical stock counts conducted by an independent third party. Provision is made for obsolete and slow moving items.

Leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases; all other leases are classified as finance leases.

Lessee accounting – operating leases

Rental payments are taken to profit for the period on a straight line basis over the life of the lease. Property leases are analysed into separate components for land and buildings and tested to establish whether the components are operating leases or finance leases.

Lessee accounting – finance leases

Assets funded through finance leases are capitalised as property, plant and equipment and depreciated over their useful economic life or lease term, whichever is shorter. The amount capitalised is the lower of the fair value and the present value, calculated using the interest rate implicit in the lease, of the future minimum lease payments. The obligations to pay future rentals are included within liabilities. Rental payments are apportioned between the finance charge and the outstanding obligation so as to produce a constant rate of finance charge on the remaining balance.

1. Accounting policies (continued)

Sale and leaseback of properties

The accounting treatment of the sale and leaseback depends upon the substance of the transaction (by applying the lease classification principles described above). For sale and operating leasebacks, the assets are sold at fair value, and accordingly the profit and loss from the sale is recognised immediately in the Statement of comprehensive income. When forming the conclusion of operating lease classification, consideration was given to the key lease classification indicators of IAS 17. The leases are typically for a 25 year period. The Directors have reviewed the remaining useful lives for these particular properties and concluded they are significantly longer than the period of the lease. Other key indicators considered in reaching an operating lease classification were the present value of the minimum lease payments and the ownership clauses in the contracts upon expiry of the lease.

Provisions

Provisions are created where the Company has a present obligation as a result of a past event, where it is probable that it will result in an outflow of economic benefits to settle the obligation and where it can be reliably measured.

For petrol filling station decommissioning costs this is when the filling station is first constructed and for dilapidations on leased buildings, when the lease is entered into. Provisions for onerous leases are recognised when the Company believes that the unavoidable costs of meeting the lease obligations exceed the economic benefits expected to be received under the lease. The amounts provided are based on the Company's best estimate of the least net cost of exit. Where material, these estimated outflows are discounted to net present value using a pre-tax rate that reflects current market assumptions. The unwinding of this discount is recognised as a financing cost in the income statement.

Retirement benefits

The Company operates a defined benefit scheme (the 'CARE scheme') and is party to the Morrison Group Retirement saver plan ('RSP') which is a cash balance scheme. A defined contribution scheme is a pension scheme under which the Company pays fixed contributions into a separate entity. A defined benefit scheme is one that is not a defined contribution scheme.

The Company operates a defined benefit retirement scheme which is funded by contributions from the Company and members. The defined benefit scheme is not open to new members. Pension benefits under CARE schemes are defined on retirement based on age at date of retirement, years of service and a formula using either the employees' compensation package or career average revalued earnings.

Pension scheme assets are valued at market rates. Pension scheme obligations are an estimate of the amount required to pay the benefits that employees have earned in exchange for current and past service cost, assessed and discounted to present value using the assumptions shown in note 16.

Current service cost is treated as an operating cost in the Statement of comprehensive income. Net interest expense/income is calculated by applying the discount rate on liabilities to the net pension liability or asset (adjusted for cash flows over the accounting period) and is recognised in finance costs or income.

Expenses incurred in respect of the management of scheme assets are included in Other comprehensive income as a reduction in the return on scheme assets. Other scheme expenses are recognised in the Statement of comprehensive income as an operating expense.

1. Accounting policies (continued)

Retirement Benefits (continued)

Remeasurements comprise actuarial gains and losses on the obligations and the return on scheme assets (excluding interest). They are recognised immediately in Other comprehensive income.

Amounts shown within note 16 are before any adjustments for deferred taxation.

The Company has a right to recognise an asset in respect of the Company's net obligation to the pension schemes. Therefore either an asset or a liability is recognised in the balance sheet.

Retirement Saver Plan
The Morrisons Group also operates a cash balance scheme (the 'RSP') that the Company's employees may join. This scheme provides a lump sum benefit based upon a defined proportion of an employee's earnings each year. This scheme is defined benefit in nature.

The Morrisons Group accounts for the RSP as a defined benefit scheme. The RSP is a Group Plan as defined in IAS 19. The Morrisons Group has chosen not to put in place a contractual agreement or stated policy for sharing across its group the net defined benefit cost, which is recognised in the individual financial statements of the sponsoring employer for the plan (Wm Morrison Supermarkets PLC). Each of the other group entities, including those within the Company, recognises a cost equal to its contribution payable for the period.

Payments by the Company to the RSP are charged to profit for the period as they arise.

Share-based payments

Wm Morrison Supermarkets PLC, the ultimate parent company, issues equity-settled share-based payments to certain employees in exchange for services rendered by them. The fair value of the share-based award is calculated at the date of grant and is expensed on a straight line basis over the vesting period. This is based on an estimate of share options that will eventually vest. This takes into account movement of non-market conditions, being service conditions and financial performance, if relevant.

Fair value is measured by use of a binomial stochastic model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The cost of the share-based award relating to each subsidiary of the ultimate parent company is calculated based on an appropriate apportionment and recharged through the intercompany account.

Trade and other debtors

Trade and other debtors are initially recognised at fair value, which is generally equal to face value, and subsequently held at amortised cost. Provision is made when there is objective evidence that the Company will not be able to recover balances in full, with the charge being included in administrative expenses.

Cash and cash equivalents

Cash and cash equivalents for cash flow purposes include cash-in-hand, cash-at-bank and bank overdrafts. In the balance sheet bank overdrafts that do not have a right of offset are presented within current liabilities.

Trade and other creditors

Trade and other creditors are initially recognised at fair value, which is generally equal to face value of the invoices received, and subsequently held at amortised cost. Trade creditors are presented net of commercial income due when the Company's trading terms state that income from suppliers will be netted against amounts owing to that supplier.

1. Accounting policies (continued)

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2. Revenue

	52 weeks ended 29 January 2017 £m	52 weeks ended 31 January 2016 £m
Sale of goods in-stores	**6,243**	6,266
Fuel	**1,719**	1,599
Total store-based sales	**7,962**	7,865
Other sales	**19**	19
	7,981	7,884

3. Employees and Directors

	52 weeks ended 29 January 2017 £m	52 weeks ended 31 January 2016 £m
Employee benefit expense for the Company during the period:		
Wages and salaries	**678**	633
Social security costs	**43**	32
Other pension costs	**21**	36
Share-based payments	**3**	5
	745	706

Average monthly number of people employed:

	2017 No.	2016 No.
Stores	**48,133**	50,758

The share-based payments cost was recharged from Wm Morrison Supermarkets PLC in respect of shares it has granted to employees of the Company. The fair value assumptions, method of accounting and financial models used in determining the share-based payment charge are consistent with those adopted in the Wm Morrison Supermarkets PLC Annual Report and financial statements. The charge in the period in respect of the Company was £3m (2016: £5m).

The emoluments of the Directors are paid by Wm Morrison Supermarkets PLC which makes no recharge to the Company. It is not possible to make an accurate apportionment of the emoluments of the Directors between Wm Morrison Supermarkets PLC and fellow subsidiaries. Accordingly, the above details include no emoluments in respect of Directors.

Where the Directors are also Directors of the ultimate parent company, Wm Morrison Supermarkets PLC, details of the emoluments and accrued benefits under the defined benefit pension schemes that the Directors received for the period ended 29 January 2017 are disclosed in the Annual Report and Financial Statements of that company.

4. Operating profit

	52 weeks ended 29 January 2017 £m	52 weeks ended 31 January 2016 £m
The following items have been included in arriving at operating profit:		
Employee costs (note 3)	745	706
Depreciation:		
– Property, plant and equipment (note 9)	128	106
– Investment properties (note 10)	-	1
Net impairment reversal (note 9)	(22)	-
Provision for onerous contracts (note 18)	3	-
(Profit)/loss on disposal and exit of properties	(4)	4
Non-recurring exceptional costs	1	-
Pension scheme set-up costs (note 16)	-	13
Operating lease rentals payable	39	39
Value of stock expensed	6,255	6,193

The net impairment reversal of £22m (£42m impairment reversal offset by £20m impairment charge) reflects fluctuations in-store level performance. The assumptions relating to this review are disclosed in note 9.

This has been partially offset by a £3m additional charge relating to the Group's provision for onerous contracts primarily relating to onerous property contracts (see note 18).

Fees to the auditors of £10,000 (2016: £10,000) in relation to audit services were paid by Wm Morrison Supermarkets PLC on the Company's behalf. No fees were paid in relation to non-audit services (2016: £nil).

5. Interest receivable and similar income

	52 weeks ended 29 January 2017 £m	52 weeks ended 31 January 2016 £m
Net pension interest income (note 16)	**8**	1

6. Interest payable and similar expenses

	52 weeks ended 29 January 2017 £m	52 weeks ended 31 January 2016 £m
Unwinding of discount (note 18)	**2**	1
Other interest payable	**-**	1
	2	2

7. Tax on profit

a) Analysis of charge in period

	52 weeks ended 29 January 2017 £m	52 weeks ended 31 January 2016 £m
Current tax – current period	**49**	39
– adjustment in respect of prior periods	**(4)**	(7)
	45	32
Deferred tax – current period	**(2)**	(11)
– adjustment in respect of prior periods	**(6)**	1
	(8)	(10)
Tax charge for the period	**37**	22

b) Tax reconciliation

The tax for both periods is different to the standard rate of corporation tax in the UK of 20.00% (2016: 20.16%). The differences are explained below:

	52 weeks ended 29 January 2017 £m	52 weeks ended 31 January 2016 £m
Profit on ordinary activities before taxation	**320**	237
Profit before tax at 20.00% (2016: 20.16%)	**64**	48
Effects of:		
Fixed asset differences	**6**	8
(Income)/ expenses not deductible for tax purposes	**(10)**	6
Prior period adjustments – current tax	**(4)**	(7)
Prior period adjustments – deferred tax	**(6)**	1
Transfer pricing adjustments	**(4)**	2
Group relief claimed	**-**	(21)
Change in tax rate	**(9)**	(15)
	37	22

c) Factors affecting current and future tax charges

Legislation to reduce the standard rate of corporation tax to 17% from 1 April 2020 was included in Finance Act 2016. Accordingly, deferred tax has been provided at 17% depending upon when the temporary difference is expected to reverse (2016: 18%).

There have not been any further announcements of changes to the rate of corporation tax after 1 April 2020.

8. Dividends

Amounts recognised as distributed to equity holders in the period:

	52 weeks ended 29 January 2017 £m	52 weeks ended 31 January 2016 £m
Interim dividend for the period ended 29 January 2017 of £1.087 per share (2016: £2.174)	**250**	500

9. Property, plant and equipment

Current period	Freehold land £m	Freehold buildings £m	Leasehold land and buildings £m	Plant, equipment, fixtures and vehicles £m	Total £m
Cost					
At 1 February 2016	1,099	2,024	354	322	3,799
Additions at cost	-	-	6	147	153
Disposals	(9)	(5)	-	(33)	(47)
Fully written down assets	-	(5)	(3)	(24)	(32)
At 29 January 2017	**1,090**	**2,014**	**357**	**412**	**3,873**
Accumulated depreciation					
At 1 February 2016	92	896	159	106	1,253
Depreciation charge for the period	-	53	6	69	128
Impairment charge	8	4	-	8	20
Impairment reversal	(24)	(16)	-	(2)	(42)
Disposals	(5)	(3)	-	(32)	(40)
Fully written down assets	-	(5)	(3)	(24)	(32)
At 29 January 2017	**71**	**929**	**162**	**125**	**1,287**
Net book amount at 29 January 2017	**1,019**	**1,085**	**195**	**287**	**2,586**

The Company has performed its annual assessment of its depreciation policies and asset lives and deemed them to be appropriate. No changes have been made to asset lives during the period.

Fully depreciated assets have been retained in the Company's fixed asset register. In order to provide greater understanding of the Company's annual depreciation charge, these assets have been removed from both cost and accumulated depreciation.

The totals above include a cost of £217m (2016: £192m) and depreciation of £97m (2016: £85m) in relation to property, plant and equipment held under finance lease.

9. Property, plant and equipment (continued)

Impairment

The Company considers that each store is a separate cash generating unit (CGU) and therefore considers every store for an indication of impairment annually. The Company calculates each store's recoverable amount and compares this amount to its book value. The recoverable amount is determined as the higher of 'value in use' and 'fair value less costs of disposal'. If the recoverable amount is less than the book value, an impairment charge is recognised based on the following methodology:

'Value in use' is calculated by projecting individual store pre-tax cash flows over the remaining useful life of the store, based on forecasting assumptions. The methodology used for calculating future cash flows is to:

- use the actual cash flows for each store in the current year;
- allocate a proportion of the Company's central costs to each store on an appropriate basis;
- project each store's cash flows over the next five years by applying forecast sales and cost growth assumptions;
- project cash flows beyond year five for the remaining useful life of each store by applying a long term growth rate; and
- discount the cash flows using a pre-tax rate of 9.0% (2016: 9.0%). The discount rate takes into account the Company's weighted average cost of capital.

'Fair value less costs of disposal' is estimated by the Directors based on their knowledge of individual stores and the markets they serve and likely demand from grocers or other retailers. The Directors also obtain valuations by store prepared by independent valuers and consider these in carrying out their estimate of fair value less cost of disposal for the purposes of testing for impairment. In determining their valuation, the independent valuers assume an expected rent and yield for each store based on the quality of the asset, local catchment and the store being occupied by a supermarket tenant with a similar covenant to the Morrisons Group.

In order to reflect recent changes in market conditions, in particular the very significant decrease in demand from major grocery retailers for supermarket space, the Directors consider it appropriate for the purpose of testing for impairment to revise downwards the rent and yield assumptions in the independent valuation to reflect the following factors on a store by store basis:

- Whether a major grocery operator might buy the store, taking into consideration whether they are already located near the store, and whether the store size is appropriate for their business model, and then if not;
- Assessing whether a smaller store operator might buy the store, in which case the value has been updated to reflect the Directors' assessment of the yield which would be achievable if such an operator acquired the store, and then if not;
- Assessing whether a non-food operator might buy the store, in which case the value has been updated to reflect the Directors' assessment of the yield which would be achievable if such an operator acquired the store.

Having applied the methodology and assumptions, the Company has recognised a net impairment reversal of £22m during the year (2016: £nil) (£42m impairment reversal offset by £20m impairment charge). This movement reflects fluctuations from store level trading performance and local market conditions. At 29 January 2017, the key assumption to which the value in use calculation is most sensitive to is the discount rate. Specific sensitivity analysis with regard to this assumption shows that an increase of 1% in the discount rate would result in an additional impairment charge of £30m.

10. Investment property

	2017 £m
Cost	
At 29 January 2017 and 1 February 2016	19
Accumulated depreciation	
At 29 January 2017 and 1 February 2016	7
Net book amount at 29 January 2017 and 1 February 2016	12

Included in other operating income is £4m (2016: £4m) of rental income generated from investment properties. The fair value of investment properties at the end of the period was £14m (2016: £14m). Investment properties are valued by independent surveyors on a vacant possession basis using observable inputs (fair value hierarchy level 2).

11. Investments

	Total £m
Cost and net book amount	
At 29 January 2017 and 1 February 2016	**350**

In accordance with section 409 of the Companies Act 2006, a full list of related undertakings including the country of incorporation, the principal activity and the effective percentage of equity owned as at 29 January 2017 is disclosed below. The registered address of all undertakings is Hilmore House, Gain Lane, Bradford, BD3 7DL unless otherwise stated.

Related undertaking	Country of incorporation	Principal activity	Interest
Safeway (Overseas) Limited	United Kingdom	Grocery retailing	100%
Stalwart Investments Limited[1]	Jersey	Property investment	100%
English Real Estates Limited	United Kingdom	Dormant	100%
Safeway Properties Limited	United Kingdom	Dormant	100%
Evermere Limited	United Kingdom	Dormant	100%
J3 Property Limited	United Kingdom	Dormant	100%
Oldwest Limited	United Kingdom	Dormant	100%
Velligrist Limited	United Kingdom	Dormant	100%
Safeway Stores (Ireland) Limited	United Kingdom	Dormant	100%
Safeway Pension Trustees Limited	United Kingdom	Dormant	100%
Freehold Investments Limited[1]	Jersey	Property investment	100%
Maypole Limited[2]	Guernsey	Property investment	100%
The Medical Hall Limited[3]	Gibraltar	Pharmaceutical licence holder	100%
Safeway Stores (Gibraltar) Pension Trustees Limited[3]	Gibraltar	Pension Trustees	51%
Lease Securities Limited[1]	Jersey	Property investment	100%

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

[1] Registered address Lime Grove House, Green Street, St Helier, Jersey, JE1 2ST.
[2] Registered address 1st & 2nd floors, Elizabeth House, Les Ruettes Brayes, St Peter Port, Guernsey, GY1 4LX.
[3] Registered address 5 Secretary's Lane, Gibraltar GX11 1AA

11. Investments (continued)

The Directors believe that the carrying value of the investments is supported by their underlying net assets

12. Stock

	2017 £m	2016 £m
Finished goods	**186**	182

There is no significant difference between the balance sheet value and replacement cost of stocks.

13. Debtors

	2017 £m	2016 £m
Amounts owed by Group undertakings	**631**	333
Prepayments and accrued income	**16**	54
	647	387

Amounts owed by Group undertakings are non-interest bearing, unsecured and are repayable on demand.

14. Creditors: amounts falling due within one year

	2017 £m	2016 £m
Amounts owed to Group undertakings	**2,922**	2,638
Corporation tax	**100**	106
Other creditors	**46**	14
Accruals and deferred income	**40**	90
	3,108	2,848

Amounts owed to Group undertakings are non-interest bearing, unsecured and are repayable on demand.

Net obligations under finance leases of £13m (2016: £15m) are payable within one year, and are included in amounts owed to Group undertakings in the table above.

15. Creditors: amounts falling due after more than one year

	2017 £m	2016 £m
Amounts owed to Group undertakings	**123**	97

Net obligations under finance leases of £123m (2016: £97m) are payable in two to five years, and are included in amounts owed to Group undertakings in the table above.

16. Pensions

a) Defined benefit pension scheme

The Company operates a defined benefit retirement scheme ('the Scheme') providing benefits based on a benefit formula that depends on factors including the employee's age and number of years of service. The Scheme provides pension benefits based on either the employee's compensation package or career average revalued earnings (CARE). The Scheme is not open to new members and was closed to future accrual in July 2016.

16. Pensions (continued)

a) Defined benefit pension scheme (continued)

Balance sheet:	2017 £m	2016 £m
Fair value of scheme assets	3,315	2,850
Present value of obligations	(3,057)	(2,645)
	258	205

Consolidated statement of comprehensive income:	2017 £m	2016 £m
Current service cost	-	11
Administrative costs paid by Scheme	1	2
Curtailment gain	-	(2)
Net interest on net pension asset– finance income	(8)	-
Total expense (credited)/charged to statement of comprehensive income	(7)	11
Statement of other comprehensive income:		
Remeasurements in other comprehensive income credit	(44)	(166)

The Scheme is a registered scheme under the provisions of Schedule 36 of the Finance Act 2004 and the assets are held in legally separate, trustee-administered funds. The Board of the Scheme is required by law to act in the best interest of the Scheme participants and is responsible for setting the investment, funding and governance policies of the fund. A representative of the Group attends Trustee Investment Committee meetings in order to provide the Group's view on investment strategy, but the ultimate power lies with the Trustees. The Deed and Rules of the Scheme gives the Group the power to set contributions, subject to regulatory override.

b) Scheme assets

Assets of the Scheme are held in order to generate cash to be used to satisfy the Scheme's obligations, and are not necessarily intended to be realised in the short-term. The allocation of assets between categories and is the responsibility of the Trustees of the Scheme. The Trustees of the Scheme invest in different categories of asset and in different allocations amongst those assets, according to the investment principles of the Scheme.

Currently, the investment strategy of the CARE Scheme is to maintain a balance of growth assets (equities and diversified growth funds), income assets (comprising credit investments, corporate bonds and absolute return bonds) and protection assets (comprising an LDI portfolio), with a weighting towards protection assets. There are no direct investments in the Group's own shares or property occupied by any member of the Group.

Liability driven investments (LDI)

Part of the investment objective of the Schemes is to minimise fluctuations in the Schemes' funding levels due to changes in the value of the liabilities. This is primarily achieved through the use of 'liability driven investments' (LDI), whose main goal is to align movements in the value of assets with movements in the schemes' liabilities arising from changes in market conditions. The Schemes have hedging that broadly covers interest rate movements and inflation movements, as measured on the Trustees' funding assumptions which use a discount rate derived from gilt yields.

LDI primarily involves the use of government bonds (including re-purchase agreements). Derivatives such as interest rate and inflation swaps are also used. There are no annuities or longevity swaps.

16. Pensions (continued)

b) Scheme assets (continued)

Diversified growth funds

The Scheme employs diversified growth funds in order to reduce its exposure to equity markets. These funds typically invest in a range of public and private market assets, including equities, bonds, commodities, property and other assets.

Credit funds

The Scheme invests in credit funds in order to improve returns available from its bond assets. These funds typically lend directly to corporations on a senior secured basis, rather than purchasing debt issued in the public markets.

Absolute return bonds

The Scheme employs absolute return bond managers to target a moderate investment return whilst aiming to preserve capital in most market environments. These funds typically invest in a range of fixed income instruments and derivatives, across different countries and currencies, actively managing their exposure according to their market views and opportunities available.

	2017 £m	2016 £m
Equities (quoted)	**563**	497
Diversified growth funds (quoted)	**360**	539
Credit funds (unquoted)	**283**	199
Corporate bonds (quoted)	**276**	608
Absolute return bonds (quoted)	**281**	-
Liability driven investments (unquoted)	**1,490**	944
Scottish Limited Partnership	**57**	59
Cash (quoted)	**5**	4
	3,315	2,850

The movement in the fair value of the Scheme's assets over the period is as follows:

	2017 £m	2016 £m
Fair value of scheme assets at start of period	**2,850**	3,036
Interest income	**104**	92
Return on scheme assets excluding interest	**441**	(219)
Employer contributions	**2**	9
Benefits paid	**(81)**	(66)
Administrative expenses	**(1)**	(2)
Fair value of scheme assets at end of period	**3,315**	2,850

Scottish Limited Partnership

The Morrisons Group has previously entered into a pension funding partnership structure. In January 2013, Wm Morrison Supermarkets Plc made a contribution to the CARE Schemes of £60m. On the same day, the Scheme invested £60m in the Wm Morrison Property Partnership ('SLP') as a limited partner. The SLP holds properties which have been leased back to the Morrisons Group in return for rental income payments. The Morrisons Group retains control over these properties, including the flexibility to substitute alternative properties.

As a partner in the SLP, the Scheme is entitled to receive a fixed distribution of £4m pa from the profits of the SLP for 20 years from 2013, subject to certain conditions. The distributions shared with the Scheme are reflected in the Company financial statements as Employer pension contributions.

16. Pensions (continued)

b) Scheme assets (continued)

In July 2015, the SLP was amended to enhance the security provided to the Scheme by including additional properties. The terms of these additional properties are such that the Scheme has no entitlement to receive a distribution.

The Scheme's interest in the SLP increases the net pension asset on an IAS 19 accounting basis because the investments held by the Scheme qualify as an asset for Company IAS 19 purposes.

c) Present value of obligations

The movement in the defined benefit obligation during the period was as follows:

	2017 **£m**	2016 £m
Defined benefit obligation at start of period	**(2,645)**	(2,995)
Current service cost	**-**	(11)
Interest expense	**(96)**	(92)
Actuarial gain - demographic assumptions	**58**	-
Actuarial (loss)/gain - financial assumptions	**(619)**	385
Actuarial gain – experience	**164**	-
Curtailment gain	**-**	2
Benefits paid	**81**	66
Defined benefit obligation at end of period	**(3,057)**	(2,645)

The duration of the defined benefit obligation at 29 January 2017 is 24 years.

d) Significant actuarial assumptions

The following are the principal actuarial assumptions at the reporting date:

Financial assumptions	**2017**	2016
Discount rate applied to Scheme liabilities (% p.a.)	**2.9%**	3.7%
Inflation assumption (RPI) (% p.a.)	**3.5%**	3.2%

Life expectancies (expressed as weighted averages)	**2017**	2016
Longevity in years from age 65 for current pensioners		
Male	**22.5**	22.8
Female	**24.0**	24.3
Longevity in years from age 65 for current members aged 45		
Male	**24.7**	25.1
Female	**26.4**	26.7

Assumptions regarding future mortality experience are set based on actuarial advice and in accordance with published statistics. Following analysis completed as part of the 2016 actuarial valuations, the 2017 year-end mortality tables used have been updated to the S2PFA-Heavy tables (males/females) based on year of birth with a scaling factor of 100% applied to the mortality rates in the Scheme, with CMI 2015 projections and a long term rate of improvement of 1.5% p.a.

16. Pensions (continued)

d) Significant actuarial assumptions (continued)
Related actuarial assumptions (expressed as weighted averages)

	2017	2016
Rate of increase of pensions in payment: RPI inflation capped annually at either 2.5% p.a. or 5% p.a. (% p.a.)	**2.2% / 3.3%**	2.1% / 3.1%
Rate of increase of pensions in deferment: CPI inflation capped over the deferment period at either 2.5% p.a. or 5% p.a. (% p.a.)	**- / 2.4%**	- / 2.2%
CPI inflation (% p.a.)	**2.4%**	2.2%

e) Sensitivity analysis
The following table summarises the impact on the defined benefit obligation at the end of the reporting period if each of the significant actuarial assumptions listed above were changed, in isolation, assuming no other changes in market conditions at the accounting date. In practice any movement in assumptions could be accompanied by a partially offsetting change in asset values, and the corresponding overall impact on the net asset is therefore likely to be lower than the amounts below in a number of scenarios. Extrapolation of the sensitivities shown may not be appropriate.

		2017 £m	2016 £m
Discount rate applied to Scheme obligations	+/- 0.1% p.a.	**-/+ 75**	-/+ 59
Inflation assumption (RPI and associated assumptions)	+/- 0.1% p.a.	**+/- 70**	+/- 55
Longevity	+ one year	**+/- 130**	+/- 102

f) Funding
The Schemes are funded by Safeway Limited and its subsidiaries.

The latest full actuarial valuation was carried out as at 1 April 2016 for the Schemes. The valuation indicated that, on the agreed funding basis, the Scheme had a surplus of £100m. As a result of the funding position there are currently no deficit contributions payable. As such there is no 'minimum funding requirement' in force.

The results of the 2016 actuarial valuations for the Scheme has been used and updated for IAS 19 purposes for the period to 29 January 2017 by a qualified independent actuary. The Schemes expose the Group to inflation risk, interest rate risk, market investment risk and longevity risk.

At the year end, the schemes in surplus have been disclosed within the assets on the balance sheet. The Group has taken legal advice with regard to the recognition of a pension surplus and also recognition of a minimum funding requirement under IFRIC 14 'IAS 19 – The limit on a defined benefit asset, minimum funding requirement and their interaction'. This advice concluded that recognition of a surplus is appropriate on the basis that the Group has an unconditional right to a refund of a surplus. In respect of the Schemes, a refund is available on the basis that paragraph 11(b) of IFRIC 14 applies.

Amendments to the current version of IFRIC 14 are currently being considered. The legal advice received by the Group has considered the proposed new wording to paragraph 12(A) of IFRIC 14 concerning whether other parties have a unilateral power to use a scheme's surplus to settle in full the scheme's liabilities and has concluded that the above accounting treatment should not be affected by the current exposure draft, including the planned revised wording, to IFRIC 14.

The current best estimate of Group contributions to be paid to the defined benefit scheme for the accounting period commencing 29 January 2017 is £6m (2016: £6m). This estimate includes amounts payable from the SLP.

g) Pension scheme set-up costs
As previously announced the Morrisons Group intends to open a new defined contribution pension scheme for colleagues during the accounting period commencing 30 January 2017. This scheme will become the Auto Enrolment scheme and as such the Company will be liable for backdated contributions for eligible colleagues to 1 October 2012. Estimated set-up costs relating to backdated contributions in respect of the Company of £13m were recognised in the 52 weeks ended 31 January 2016.

17. Deferred tax

	2017 £m	2016 £m
Deferred tax liabilities	**144**	141
Deferred tax asset	**(7)**	(5)
Net deferred tax liability	**137**	136

IAS 12 'Income Taxes' permits the offsetting of balances within the same tax jurisdiction. All of the deferred tax assets were available for offset against deferred tax liabilities.

The movements in deferred tax assets and liabilities during the period are shown below.

Current period	Property, plant and equipment £m	Pensions £m	Other £m	Total £m
At 1 February 2016	104	37	(5)	136
Credited to profit for the period	(4)	(2)	(2)	(8)
Credited to other comprehensive income and equity	-	9	-	9
At 29 January 2017	**100**	**44**	**(7)**	**137**
Prior period				
At 2 February 2015	115	5	(7)	113
(Credited)/charged to profit for the period	(11)	(1)	2	(10)
Credited to other comprehensive income and equity	-	33	-	33
At 31 January 2016	**104**	**37**	**(5)**	**136**

18. Provisions for liabilities

	Onerous lease provisions £m	Other property provisions £m	Total £m
At 1 February 2016	35	10	45
Charged to profit for the period	3	-	3
Utilised/released in period	(3)	-	(3)
Unwinding of discount	2	-	2
At 29 January 2017	**37**	**10**	**47**

Part of the onerous leases relate to sublet and vacant properties, with commitments ranging from one to 56 years. The provision is revised regularly in response to market conditions.

Other property provisions include a petrol filling station decommissioning reserve for the cost of decommissioning petrol tanks, and provisions for dilapidations on leased buildings, for the cost of restoring assets to their original condition.

19. Called-up share capital

	Number of shares millions	Nominal value per share £	Share capital £m
Ordinary shares at 29 January 2017 and 1 February 2016	230	1	230

All issued shares are fully paid.

20. Operating lease arrangements

The Company has outstanding commitments for future minimum lease payments for various offices, stores and warehouses under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights, and fall due as follows:

	2017 £m	2016 £m
Within one year	**25**	27
More than one year and less than five years	**94**	93
After five years	**329**	340
	448	460

21. Ultimate holding company

The immediate parent undertaking is Stores Group Limited. The head of the smallest group in which the results of the Company are consolidated is Safeway Limited which is incorporated in Great Britain and registered in England and Wales. Copies of the financial statements of Safeway Limited are available from the address below.

The ultimate parent undertaking, controlling party and head of the largest group in which the results of the Company are consolidated is Wm Morrison Supermarkets PLC which is incorporated in Great Britain and registered in England and Wales.

Copies of the financial statements of Wm Morrison Supermarkets PLC are available from:

The Company Secretary
Wm Morrison Supermarkets PLC
Hilmore House
Gain Lane
Bradford
BD3 7DL